City of Seattle
Edward B. Murray, Mayor

Department of Transportation
Scott Kubly, Acting Director

MEMORANDUM

Date: September 11, 2014

To: Hon. Tom Rasmussen, Chair, Transportation Committee, Seattle City Council

From: Scott Kubly, Acting Director, Seattle Department of Transportation
Mike Estey, Manager, Parking Operations and Traffic Permits, SDOT

Subject: CB 118112; Budget Proviso 114-1-A-2: Parking Pay Station Recommendation to Purchase

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Objective:
In November 2013, Council adopted Budget Proviso 114-1-A-2 related to funding for the parking pay station replacement project. This memo provides the rationale for the Seattle Department of Transportation's (SDOT's) updated recommendation to purchase pay stations rather than acquire them via lease agreement. SDOT selected a preferred vendor in July 2014 as an outcome of an extensive Request for Proposals (RFP) process. If legislation to lift the Budget Proviso is adopted by Council this month, SDOT can proceed to sign a contract with the chosen vendor and move forward on the project.

Background:
SDOT issued an RFP in October 2013, seeking a vendor to replace and/or retrofit the city's 2,200 aging parking pay stations. In the Adopted 2014-19 CIP, Council included funding and budget authority for the project, but placed a proviso on the funding until the Executive and Council agree on: a) what changes are proposed for on-street parking rates and related policies in 2014, and b) the rationale for either leasing or purchasing replacement parking pay stations.

In June 2014, SDOT staff briefed the Transportation Committee on legislation to lift the Budget Proviso, including reference to SDOT's "2014 Performance-Based On-Street Parking Report: Proviso Response." Beginning on page 12, that Proviso Response concluded that the City should lease, rather than purchase, the 2,200 pay stations at a higher cost than purchasing, and laid out arguments in support. The members of the Transportation Committee asked SDOT to provide specific lease terms and contract language that would more fully demonstrate the reported advantages to leasing and assurance on how the city's interests would be protected.

Key Issues:
Since June, SDOT has been working closely with the chosen vendor to draft and finalize contract terms, as well as with City Purchasing, the Law Department, the City Budget Office, and the City's Debt

Seattle Municipal Tower
700 5th Avenue
Suite 3800
PO Box 34996
Seattle, Washington 98124-4996

Tel (206) 684-ROAD / (206) 684-5000
Fax: (206) 684-5180
Hearing Impaired use the Washington Relay Service (7-1-1)
www.seattle.gov/transportation

Manager. In doing so, the previously presumed advantages to leasing have largely disappeared. Specifically:

- The vendor has offered an innovative warranty package intended to future-proof the City against unanticipated costs associated with changes to technology and parts obsolescence (such as changes to wireless communications capabilities or card reader requirement standards.) It will apply to either a purchase or lease and will guard the City against operational and financial risk that would threaten the functionality of the pay stations. Many of the presumed benefits of a lease option also became available under the purchase option with this warranty.

- In a lease to own agreement, the vendor would receive a lump-sum payment from a third-party financial institution which would manage the lease. This would significantly lessen the City's future ability to directly hold the vendor's feet to the fire financially.

- A termination for convenience clause in a lease would come with significant costs and penalties. The increased cost is not worth the benefit.

- SDOT previously saw leasing as an option that provides greater financial flexibility in the future relative to changes in SDOT's asset inventory, such as the conclusion of a neighborhood parking planning process that includes a desire for new paid parking. SDOT has since been counseled that there are options available to purchase additional pay stations in the future that would be timely enough to meet such demands, but at a lower lifecycle cost to the city.

After conferring with the Law Department, City Budget Office, the City's Debt Manager, and Council staff, SDOT believes purchase is preferred to lease options and recommends acquiring replacement pay stations via purchase.

Financial Impacts:
The Parking Pay Station Replacement Program assumes a 7-year cost of $30 million. The annual amounts identified in the 2014 Adopted CIP were based on leasing assumptions. Based upon the recommendation to purchase rather than lease, SDOT is working with CBO and the City's Debt Manager to finalize an updated implementation and financing plan that will allow all pay stations to be replaced or retrofitted in 2015 and 2016. The 2015 CIP amount of $4.175 million (with additional 2014 carryover) will allow for cash purchase and installation of 377 new pay stations in Pioneer Square, the Commercial Core, Chinatown-International District and Capitol Hill; it will also pay for 396 retrofit upgrades to pay stations in those neighborhoods and all of South Lake Union during 2015. This represents more than one-third of the current pay stations. Due to the timing of the decision to a purchase rather than lease, a debt financing option could not be developed for 2015. There is internal agreement that the City will debt finance the pay stations for the rest of the neighborhoods in 2016, so all units should be replaced or upgraded by the end of that year. The amount of funding needed in 2016 will need to be adjusted to match the finance plan; this will be addressed during next year's budget process.